

ARIZONA WATER BANKING AUTHORITY
Draft Minutes

June 28, 2017

Arizona Department of Water Resources



AUTHORITY MEMBERS
Thomas Buschatzke, Chair
Ray L. Jones, Vice-Chair
Kathryn Sorensen, Secretary
Pamela Pickard
Steven Moss

EX OFFICIO MEMBERS
The Honorable Steve Yarbrough
The Honorable J.D. Mesnard

Welcome/Opening Remarks

Chair Thomas Buschatzke welcomed attendees. Vice Chair, Ray Jones, Secretary, Kathryn Sorensen and Pamela Pickard attended in person. Steven Moss attended via teleconference. *Ex-officio* members, President Steve Yarbrough and Speaker J.D. Mesnard, were not in attendance. Chair Buschatzke changed the order of the agenda to accommodate action items starting with item four through seven and then back up to item one through three. All items, however, will be described below in the order they appear on the agenda.

Approval of Minutes

Chair Buschatzke asked for a motion to approve the minutes from the March 15, 2017 regular quarterly meeting. Ms. Pickard asked to revise the minutes to reflect that on page 3, Southern Nevada Water Authority's first right of refusal for 2,500 acre-feet of recovery capacity at the Arizona Water Company underground storage facility extends to 2050 and not 2030. With that change, Ms. Sorensen moved to approve the minutes. Ms. Pickard provided the second to the motion, and the minutes were approved.

Water Banking Staff Activities

Monthly Deliveries. Ms. O'Connell, AWBA Manager, reviewed deliveries for 2017, indicating that deliveries through May match planned deliveries. The AWBA is scheduled to receive nearly 18,000 acre-feet of water and so far, 16% or 2,700 acre-feet of water has been delivered through May. Regarding credit purchases, 1,524.8 acre-feet of long-term storage credits have been purchased from the Tohono O'odham Nation pursuant to Arizona Revised Statutes, section 45-841.01(F)(5) for \$303,435.20. Additionally, 7,000 acre-feet of firming credits have been developed with the Gila River Indian Community for \$1,148,000. Including the 50,000 acre-feet of credits purchased from Active Resource Management (Vidler Water Co.) in January, the total amount of credits developed this year is roughly 58,000 acre-feet out of 87,000 acre-feet identified in the 2017 Plan of Operation.

Colorado River Status Update. Jeff Inwood, ADWR Colorado River Management, gave an update on Colorado River Basin conditions (available on-line). As of June 12, 2017, total system storage is at 56% of capacity or 33.326 million acre-feet (MAF): 62% capacity in Lake Powell and 38% capacity in Lake Mead. Mr. Inwood showed two snow pack graphs to demonstrate the variability over a few months. Through March of 2017 snowpack was trending above 2011 snowpack levels. Subsequently, snow pack has declined sharply and is currently only slightly above 2016 levels. Resulting inflows in 2011 were around 16 MAF. Projected 2017 inflows have decreased from 14.35 MAF in March to 12.36 MAF in the most recent USBOR 24-Month study primarily because the projected release from Powell has been adjusted down by nearly 2 MAF. Given the drop in projected inflows since March, the elevation in Lake Mead has dropped from

1096.77 feet projected for January 1, 2019 to 1076.53 feet, about 20 feet and only about a foot and half above a Tier 1 shortage trigger level.

Chair Buschatzke asked how much system conservation in Lake Mead is included in the modeling projections. Mr. Inwood stated that the volume for 2017 is roughly 350,000 acre-feet and the volume for 2018 is over 100,000 acre-feet. He noted that the volumes did not include planned CAWCD system conservation or Gila River Indian Community conservation of 40,000 acre-feet.

Mr. Inwood described updated shortage probabilities and explained the difference between the modeling used for shortage probabilities compared with the modeling used for 24-Month Studies. Mr. Inwood explained that the probabilities can change quickly. He used the last two 24-Month Studies to demonstrate this. In the August 2016 24-Month Study, the probabilities of shortage exceeded 60%. By the January 2017 24-Month Study, the probability of shortage in most of the projection years decreased by half and the probability of shortage in 2018 decreased from 34% to 0%.

CAP System Update. Patrick Dent, CAWCD Water Control Manager, gave an update on the CAP system (available on-line) and specifically on Lake Mead conservation efforts. Since his report in March, the USBOR finished its decree accounting and total conservation efforts were 187,167 acre-feet in 2016. For 2017, CAWCD is projecting 232,435 acre-feet of conservation and potentially another 40,000 acre-feet the City of Phoenix, ADWR and the Walton Foundation are supporting with the Gila River Indian Community. This last effort will be included when the Community changes its water order. For 2018, CAWCD expects similar conservation volumes leaving a modest amount of water for the AWBA like 2017.

Recovery Planning Update. Ken Seasholes, CAWCD Resource Planning & Analysis Manager, gave an update on recovery planning indicating the CAWCD continues to focus on entering into voluntary recovery partnership agreements. The CAWCD Board also established a policy regarding a partnership with the CAGR that would result in the substitution of AWBA credits in lieu of delivery to an underground storage facility. CAWCD is also studying a potential recovery facility at the Tonopah Desert Recharge Project (TDRP). Three bore holes have been drilled and early indications show good water quality and strong yield. Ms. Sorensen asked which CAP funds were used to develop the TDRP site and what funds will be used to construct a recovery facility. Mr. Seasholes responded that costs are currently paid through general overhead. If the project progresses, it will become a capital project and likely be funded with tax revenues like the construction of the recharge portion of TDRP.

Mr. Seasholes updated the Commission on the Water Quality Standards Task Force established by CAWCD suggesting this issue may have potential cost impacts on recovery. Finally, he lauded the technical work between ADWR, CAWCD and the AWBA and the recent decision for ADWR to use the same software as CAWCD for modeling purposes. Ms. Pickard expressed a hope that the water quality standards process will take less time than the System Use Agreement process. Ms. Sorensen asked who the voluntary partners are working with CAWCD. Mr. Seasholes indicated that the first agreement is with Arizona Water Company and others are subcontractors who use their supplies through annual storage and recovery.

Water Storage Tax

Ms. O'Connell reported that the CAWCD Board adopted its annual resolution regarding use of the Water Storage Tax for tax year 2017/2018. As in previous years, the tax rate has been set at 4¢ per \$100 of assessed property valuation. Monies collected will be deposited in accounts held by CAWCD and used for CAP repayment or annual O&M and replacement costs, including CAWCD costs for AWBA CAP M&I firming. For the first time, however, 2¢ of the tax will be deposited into CAWCD's Working Capital Reserve and made available for the Agricultural Consideration Program. Monies for this program have previously come from CAWCD's general ad valorem property tax. By doing this, CAWCD can use the general ad valorem tax monies for other purposes such as recovery, Colorado River programs and strategic reserves. CAP staff indicated that the 2¢ will be taken from all three counties proportionally and as such will primarily affect AWBA activities in the Tucson AMA. She added that when the CAWCD Board adopted the resolution, it emphasized in the motion that this was for a one-year period.

Ms. O'Connell reminded the Commission that there is a large carryover of the 4¢ tax monies in Maricopa County. CAWCD staff estimates that by year end, the amount will be about \$112 million. CAWCD has started discussions on how excess monies might be applied in the future, taking into consideration what is still needed for the AWBA to meet its M&I firming goal targets.

Chair Buschatzke asked for public comment on this agenda item. Brett Fleck, Water Policy Analyst for the Arizona Municipal Water Users Association, provided a white paper to Commission members regarding the 4¢ tax and briefly summarized AMWUA's viewpoint regarding its use.

Legislative Transfers from Arizona Water Banking (AWB) Fund

Regarding legislative transfers for FY 2018, Ms. O'Connell indicated that \$1.61 million is being transferred from the AWB Fund to support the Arizona Navigable Stream Adjudication Commission (ANSAC), the Auditor General's Office and ADWR. She recommended meeting the transfer by using groundwater withdrawal fees shared pro rata between the AMAs based on funds collected. The transfers for ANSAC (\$200,000) and the Auditor General's Office (\$200,000) could occur before calendar year-end and the ADWR transfer is expected to occur in the following calendar year, in which case, the 2018 Plan of Operation will take these reductions into account. Vice-Chair Jones asked if these transfers were anticipated to continue. Ms. O'Connell indicated that the monies made available to the Auditor General's Office is expected to be a one-time transfer and ANSAC is anticipated to sunset. Chair Buschatzke indicated that he and Hunter Moore of the Governor's Office have explained to budget analysts the implications of the legislative transfers.

Ms. Pickard moved to approve the staff recommendation for transferring \$1,611,400 in funds proportionally from each AMA withdrawal fee subaccount in the Arizona Water Banking Fund for Fiscal Year 2018 pursuant to Senate Bill 1522. Vice-Chair Jones seconded the motion and the motion passed.

2016 Annual Report

Ms. O'Connell and Terri Sue Rossi, Technical Administrator for the AWBA, gave a presentation on the AWBA 2016 Annual Report including the Ten-Year Plan (available online). Public comments received were incorporated into the final report and were primarily technical corrections. Based on comments received from the City of Phoenix regarding the characterization of current and projected Colorado River hydrologic conditions, the Annual Report was also revised to reflect a continued primary theme of the likelihood of shortage conditions. Chair Buschatzke asked if any credits have been dedicated to the Gila River Indian Community under the settlement. Ms. O'Connell responded affirmatively saying that water stored at the Gila River Indian Irrigation & Drainage District GSF as well as firming credits developed under the AWBA's 2015 intergovernmental agreement with the Community have been dedicated toward meeting future firming requirements. The total amount is currently over 133,000 acre-feet.

Vice-Chair Jones moved to approve the 2016 Annual Report and Ten-Year Plan as submitted, or with minor or technical changes based on discussion, and to direct staff to submit the report to the Governor, Speaker of the House and President of the Senate pursuant to statute. Ms. Pickard provided the second and the motion passed.

Fiscal Year 2018 Administrative Budget

Ms. O'Connell provided an overview of the administrative budget for FY 2017, noting it was the cost of services paid to ADWR. She noted that expenditures were under budget by over \$100,000 at \$455,867 (est. \$558,193) due to expenses related to database development and website migration being provided by ADOA and others at no cost. Ms. Sorensen asked how much discretion the AWBA has to exceed its total budget amount.

Ms. O'Connell responded saying that changes in staffing and other major expenses would need to come back to the Commission for approval. Vice-Chair Jones commented about the austere nature of the budget and remarked that tax payers are getting great value from the AWBA. Ms. Pickard asked how unplanned events like special conferences are handled. Chair Buschatzke responded saying that travel and attendance at conferences is through his approval, but the AWBA cannot exceed its budget.

The administrative budget for FY 2018 is estimated at just over \$556,000. Ms. Pickard made a motion to adopt the AWBA administrative budget for FY 2018 as presented with any minor or technical changes. Vice-Chair Jones provided the second and the motion passed.

Call to the Public

Chair Buschatzke asked if there were any public comments. Hearing none, the Commission adjourned at 11:37 a.m.